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HOMER MEMORIAL HOSPITAL AND AFFILIATE

FINANCIAL STATEMENTS WITH MANAGEMENT'S DISCUSSION AND ANALYSIS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED JUNE 30, 2011, 2010, AND 2009

HOMER MEMORIAL HOSPITAL AND AFFILIATE
TOWN OF HOMER, STATE OF LOUISIANA
YEARS ENDED JUNE 30, 2011, 2010, AND 2009

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Homer Memorial Hospital and Affiliate

Management's Discussion and Analysis

This section of Homer Memorial Hospital and Affiliate's (Hospital's) annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal years that ended on June 30, 2011, 2010, and 2009. Please read it in conjunction with the financial statements in this report.

Financial Highlights

- The Hospital's total assets increased by $1,773,000 or approximately 14% during fiscal year 2011. This increase is primarily from the receipt of a Medicaid incentive payment and one large grant. Medicaid paid the Hospital $737,000 as an incentive for implementing electronic health records. A grant of $704,000 was received to provide adequate and essential medically necessary health care services to low income or indigent patients. The Hospital's total assets increased by $130,000 or approximately 1% during fiscal year 2010 compared to a decrease of $438,000 (3%) in fiscal year 2009.

- Net patient revenues increased by $1,821,000 (11%) in fiscal year 2011 compared to the increase of $344,000 or 2% in fiscal year 2010. This is a large improvement when compared to the 2010 amounts and similar to the increase of $1,166,000 (8%) in fiscal year 2009.

- Total operating expenses increased proportionately compared to net patient revenues with a 6% increase of $949,000 compared to an increase of $541,000 (3%) in fiscal year 2010. This was a larger increase than the $363,000 (2%) increase in fiscal year 2009.

- The Hospital received $221,000, $995,000, $741,000 and $1,664,000 in disproportionate share payments during fiscal years 2011, 2010, 2009, and 2008. Disproportionate share amounts are computed based on the most recently filed cost report but recoveries of excess payments may occur once the final cost report for the year in which payments are paid is complete. Following preparation of the cost reports for fiscal year end June 30, 2011 and 2010, potential overpayments in the amounts of $221,000 and $873,000 were recorded. For 2011 the actual funds received of ($221,000) less expected recovery of ($221,000) nets to $-0- accrual basis revenue. In 2010, actual funds received ($995,000) less expected overpayment recovery ($873,000) nets to accrual basis revenue of $122,000. The potential overpayments are reflected on the current year balance sheet as a liability. The federal definition of UCC changed effective July 1, 2010, which reduced income in fiscal year 2011 and for future years. The reduction in fiscal year 2009 disproportionate payments is the result of an increase in Medicaid reimbursement to 110% of Medicaid allowable cost. This accounting change shifted a significant percentage of Medicaid payments from the retroactive disproportionate system to the concurrent claims payment system without actually increasing or decreasing total reimbursement from Medicaid.

Required Financial Statements

The Financial Statements of the Hospital report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities. The Balance Sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Assets. This statement measures results in the Hospital's operations during the years provided and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing and financing activities, and to provide answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

Financial Analysis of the Hospital

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and changes in them. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

Financial Analysis of the Hospital (Continued)

TABLE 1
Condensed Balance Sheets (In thousands)

	June 30,			
	2011	2010	2009	2008
Total current assets	$ 6,453	$ 4,604	$ 4,255	$ 5,422
Limited use assets (non current)	2,454	2,130	2,328	1,131
Property, plant and equipment	5,119	5,511	5,528	5,985
Unamortized bond issue cost	66	74	78	89
Total assets	$ 14,092	$ 12,319	$ 12,189	$ 12,627
Total current liabilities	$ 2,943	$ 2,407	$ 2,239	$ 2,546
Long-term debt, net of current	1,432	1,564	1,526	1,680
Total liabilities	4,375	3,971	3,765	4,226
Net assets:				
Invested in capital assets, net of related debt	3,306	3,611	3,810	4,080
Temporarily restricted net assets	1,037	942	707	424
Unrestricted net assets	5,374	3,795	3,907	3,897
Total liabilities and net assets	$ 14,092	$ 12,319	$ 12,189	$ 12,627

As can be seen in Table 1, total assets increased by $1,773,000 to $14,092,000 in fiscal year 2011, up from $12,319,000 in fiscal year 2010

The Hospital paid cash for all of the acquisitions listed in the table below with the exception of the radiology equipment. Bonds were issued in the amount of $254,000 in fiscal year 2011 for the actual cost of the radiology equipment. Any additional costs associated with the installation of the radiology equipment were paid for with cash.

Financial Analysis of the Hospital (Continued)

TABLE 2
Capital Investments (Rounded to nearest thousand)

	2011 Cost
Equipment	
Computer equipment	$ 9,000
GE radiology equipment	283,000
Ventilator core	13,000
Total equipment	305,000
Buildings and Improvements	
Metal doors	9,000
Remodel radiology	30,000
Remodel server room, fire suppression system	32,000
Total buildings and improvements	71,000
Construction in Progress	
ICU renovation plans	49,000
CT power conditioner	33,000
Anesthesia equipment	34,000
Other renovation project costs	42,000
	158,000
Total major acquisitions	$ 534,000

Sources of Revenue

Operating Revenue

During fiscal years 2011, 2010, and 2009, the Hospital derived the majority of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs or other third party payers and patients who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and other third party payers is based upon established contracts, and the difference between the full charge and payment is recognized as a contractual adjustment. Medicaid paid the Hospital $737,000 as an incentive for implementing electronic health records. During fiscal year 2011 the Hospital received $704,000 grant revenue to be used solely to provide adequate and essential medically necessary health care services to the citizens of the community who are low income and/or indigent. Other revenue includes interest income, cafeteria sales, and other miscellaneous services.

Table 3 represents the relative percentages of net charges billed for patient services by payor for the fiscal years ended June 30, 2011, 2010, and 2009. Payor mix percentages are computed based on gross charges less contractual adjustments compared to total net patient charges. In July 2009, the per diem rate paid increased to $1,370, 110% of the median cost for Louisiana small rural hospitals.

Sources of Revenue (Continued)

TABLE 3
Payor Mix by Percentage

	Year ended June 30		
	2011	**2010**	**2009**
Medicare	27.38%	36.26%	31.03%
Medicaid	21.86%	24.14%	10.14%
Commercial	13.92%	10.42%	18.30%
Self-pay and other	36.84%	29.18%	40.53%
Total patient revenue	100.00%	100.00%	100.00%

Non-Operating Income

The Hospital holds designated and restricted funds in its Balance Sheet that are invested primarily in money market funds held at First Guaranty Bank in Public Fund Service Accounts (PFSA). Total investment income earned was $34,000, $35,000, and $24,000 in 2011, 2010, and 2009, respectively. In January 2009 all investment accounts were switched to a Money Market account with a guaranteed rate of at least 1.00%. Alternatives were reviewed in order to obtain a better rate but accounts with higher interest rates require that the funds be restricted and were not accessible without penalties.

Capital Grants and Contributions

Various small grants were received to purchase equipment. The Claiborne Healthcare Foundation, an affiliate, received contributions of $148,000, $307,000, $240,000, and $81,000 during fiscal years 2011, 2010, 2009, and 2008, respectively that are restricted towards future capital expenditures.

Income Statement

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended June 30, 2011, 2010, 2009, and 2008.

TABLE 4
Condensed Statements of Revenues, Expenses, and Changes in Net Assets (In thousands)

	Years Ended June 30,			
	2011	2010	2009	2008
Net patient service revenue	$ 18,631	$ 16,810	$ 16,466	$ 15,300
Noncapital grants	752	4	-0-	-0-
Other revenue	237	201	179	203
Total operating revenues	19,620	17,015	16,645	15,503
Salaries	7,661	7,176	7,236	7,125
Benefits and payroll taxes	1,477	1,334	1,501	1,483
Supplies and drugs	4,089	3,813	3,933	3,831
Professional fees	2,685	2,560	1,900	1,724
Other expenses	1,232	1,350	1,114	1,360
Insurance	246	225	217	203
Depreciation and amortization	926	909	925	737
Total operating expenses	18,316	17,367	16,826	16,463
Operating income (loss)	1,304	(352)	(181)	(960)
Investment income	34	35	24	138
Interest expense	(90)	(88)	(89)	(119)
Gain (loss) on disposal of assets	-0-	2	15	-0-
Revenues in excess of expenses	1,248	(403)	(231)	(941)
Capital grants and contributions	120	328	255	1,151
Increase (decrease) in net assets	1,368	(75)	24	210
Net assets - beginning of year	8,349	8,424	8,400	8,190
Net assets - end of year	$ 9,717	$ 8,349	$ 8,424	$ 8,400

Accounts Receivable

Total accounts receivable has increased within the past year. Part of the increase is due to new management in the Hospital and business office in 2011. The implementation of a new computer system on May 1, 2008 contributed to a backlog of claims due to employees learning the new system. The new business office manager and Medicare billing clerk are working on getting the business office operating efficiently and as a result accounts receivable should decrease. The Hospital continues to carry accounts on which payment arrangements have been made, therefore, the total balance stays in active accounts receivable longer.

TABLE 5
Accounts Receivable Aging (In thousands)

	Year ended June 30		
	2011	**2010**	**2009**
Current accounts	$ 3,824	$ 4,001	$ 4,264
30-day accounts	1,341	1,021	971
60-day accounts	645	390	867
90-day and over accounts	3,398	2,817	3,471
Total	$ 9,208	$ 8,229	$ 9,573

Operating and Financial Performance

The following summarizes the Hospital's Statements of Revenues, Expenses, and Changes in Net Assets between 2011 and 2010:

- Patient days, not including Senior Care days, increased to 11,427, 10,964, and 10,651 in 2011, 2010, and 2009, respectively. This is a 4%, 3%, and 2% increase in overall activity for the past three years.

- Salaries increased by $485,000 compared to a decrease of $60,000 in 2010. Nursing, administration, and emergency room are the three areas that saw the largest increases. Employee benefits expense increased $143,000 compared to a decrease of $167,000 in fiscal year 2010.

- Investment income was at $34,000, $35,000, and $24,000 for fiscal years 2011, 2010, and 2009, respectively primarily due to the ability to transfer money to savings and increase the balances in the accounts held at First Guaranty Bank. In January 2009, the Hospital moved funds into a Money Market account which has a guaranteed floor of 1%. Rates have remained low throughout the fiscal year and are being re-evaluated quarterly to make sure the highest return is being earned.

- Professional fees increased by $125,000 or 5%. A decrease from the 2010 increase of $660,000 or 35%. There were several changes within fiscal year 2010 that contributed to the

Operating and Financial Performance (Continued)

rise in professional fees. In May 2009, the loss of one of the Nurse Practitioners resulted in heavy usage of contract physicians. Then in April 2010, the other Nurse Practitioner resigned causing another increase in physician usage. Homer Memorial Hospital was successful in obtaining a physician to provide coverage of the ER for one of the vacated Nurse Practitioner positions but we still rely on the contracted physicians for the other. In November 2009, the Hospital contracted with Hospital Housekeeping Services (HHS) for the housekeeping needs of the facility. Also, the Hospital began an Outpatient Wound Care clinic contracting with Wound Care Specialists to provide a new service to patients in the community.

- Supply and drug cost increased by $276,000 or 7% over the prior year. In fiscal year 2011, the increase in patient volume coupled with increases in cost of supplies and drugs contributed to the rise in costs.

- In February 2010, the Hospital received the first request from the Recovery Audit Contractors (RAC) for medical records to be reviewed for proper coding and documentation. RAC is a private company hired by Medicare to identify and correct past Medicare improper payments, whether overpayments or underpayments. These audits will continue but the Hospital has implemented an internal audit and review process within the facility to identify possible coding errors prior to RAC review on issues that have been identified for review.

Contacting the Hospital's Financial Management

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Hospital Administration.

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Independent Auditors' Report

Board of Commissioners
Homer Memorial Hospital
Homer, Louisiana

We have audited the accompanying combined financial statements of Homer Memorial Hospital and its affiliate (the Hospital), a component unit of the Town of Homer, Louisiana, as of and for the years ended June 30, 2011, 2010, and 2009, as listed in the foregoing table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Hospital, as of June 30, 2011, 2010, and 2009, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 8, 2011, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i through viii be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary

information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the Hospital's combined financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lester, Miller & Wells

Certified Public Accountants
Alexandria, Louisiana

November 8, 2011

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED BALANCE SHEETS
JUNE 30,

	2011	2010	2009
ASSETS			
Current:			
Cash and cash equivalents (Notes 2 & 3)	$ 1,703,067	$ 2,016	$ 118,526
Short-term investments (Note 3)	516,846	786,267	54,370
Receivables, net (Note 4)	3,104,575	2,615,133	2,874,488
Assets limited as to use - current (Note 5)	321,969	334,296	383,432
Inventories	566,108	580,200	567,120
Prepaid expenses	233,551	277,785	247,613
Other current assets (Note 6)	7,076	8,457	9,650
Total current assets	6,453,192	4,604,154	4,255,199
Other:			
Assets limited as to use - non current (Note 5)	2,453,841	2,129,856	2,327,669
Capital assets, net (Note 7)	5,118,869	5,510,634	5,527,783
Unamortized bond issue cost	65,723	74,521	78,226
Total assets	$ 14,091,625	$ 12,319,165	$ 12,188,877
LIABILITIES AND NET ASSETS			
Current:			
Accounts payable	$ 566,569	$ 366,932	$ 505,232
Accrued expenses	700,911	630,989	658,691
Estimated third-party payor settlements	1,294,000	1,073,000	883,000
Current maturities of long-term debt (Note 8)	381,731	335,619	191,600
Total current liabilities	2,943,211	2,406,540	2,238,523
Long-term debt, net of current maturities (Note 8)	1,431,441	1,563,738	1,525,920
Total liabilities	4,374,652	3,970,278	3,764,443
Net Assets:			
Invested in capital assets, net of related debt	3,305,697	3,611,277	3,810,263
Temporarily restricted net assets (Note 5)	1,037,329	942,203	706,788
Unrestricted net assets	5,373,947	3,795,407	3,907,383
Total net assets	9,716,973	8,348,887	8,424,434
Total liabilities and net assets	$ 14,091,625	$ 12,319,165	$ 12,188,877

See accompanying notes to financial statements.

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30,

	2011	2010	2009
Operating Revenues:			
Net patient service revenue (Note 10)	$ 18,630,962	$ 16,809,731	$ 16,466,368
Noncapital grants (Note 15)	751,798	3,771	-0-
Other operating revenue	236,949	201,094	178,459
Total operating revenues	19,619,709	17,014,596	16,644,827
Operating Expenses:			
Salaries	7,660,704	7,176,171	7,235,614
Benefits and payroll taxes	1,477,300	1,333,641	1,501,386
Supplies and drugs	4,089,234	3,813,138	3,933,507
Professional fees	2,684,962	2,559,642	1,899,899
Other expenses	1,231,901	1,349,764	1,113,660
Insurance	245,961	225,394	216,649
Depreciation and amortization	925,484	908,917	924,702
Total operating expenses	18,315,546	17,366,667	16,825,417
Operating income (loss)	1,304,163	(352,071)	(180,590)
Nonoperating revenues (expenses)			
Investment income	33,572	35,005	23,512
Interest expense	(89,948)	(88,239)	(89,123)
Gain (loss) on disposal of assets	-0-	2,000	15,009
Excess of revenues (expenses) before capital grants and contributions	1,247,787	(403,305)	(231,192)
Capital grants and contributions	120,299	327,758	255,235
Increase (decrease) in net assets	1,368,086	(75,547)	24,043
Net assets at beginning of year	8,348,887	8,424,434	8,400,391
Net assets at end of year	$ 9,716,973	$ 8,348,887	$ 8,424,434

See accompanying notes to financial statements.

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30,

	2011	2010	2009
Cash flows from operating activities:			
Cash receipts from and on behalf of patients	$ 18,362,520	$ 17,259,086	$ 17,724,760
Other receipts and payments, net	990,128	206,058	348,943
Payments to suppliers and contractors	(7,994,095)	(8,129,490)	(7,433,153)
Payments for employees and benefits	(9,068,082)	(8,537,514)	(8,842,332)
Net cash provided (used) by operating activities	2,290,471	798,140	1,798,218
Cash flows from investing activities:			
Interest on investments	33,572	35,005	23,512
Change in assets whose use is limited	(311,658)	246,949	(1,237,823)
Change in investments	269,421	(731,897)	(30,323)
Net cash provided (used) by investing activities	(8,665)	(449,943)	(1,244,634)
Cash flows from capital and related financing activities:			
Capital grants and contributions	120,299	327,758	255,235
Interest paid on long-term debt	(89,948)	(88,239)	(89,123)
Proceeds from issuance of long-term debt	254,406	430,500	-0-
Payment for bond issue costs	8,798	3,705	11,175
Principal payments on long-term debt	(340,591)	(248,663)	(321,152)
Proceeds from disposal of assets	-0-	2,000	15,009
Purchase of capital assets	(533,719)	(891,768)	(333,770)
Net cash provided (used) by capital and related financing activities:	(580,755)	(464,707)	(462,626)
Net increase (decrease) in cash and cash equivalents	1,701,051	(116,510)	90,958
Beginning cash and cash equivalents	2,016	118,526	27,568
Ending cash and cash equivalents	$ 1,703,067	$ 2,016	$ 118,526
Supplemental disclosure of cash flow information			
Cash payments for:			
Interest (net of interest capitalized)	$ 84,011	$ 95,136	$ 88,077

See accompanying notes to financial statements.

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED JUNE 30,

Noncash investing, capital and financing activities:

The Hospital entered into capital lease obligations of $134,091 for new equipment in 2009.

	2011	2010	2009
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	$ 1,304,163	$ (352,071)	$ (180,590)
Adjustments to reconcile operating income to net cash flows provided (used) in operating activities:			
Depreciation and amortization	925,484	908,917	924,702
(Increase) decrease in:			
Patient accounts receivable, net	(489,442)	259,355	1,258,392
Other assets	59,707	(42,059)	70,524
(Increase) decrease in:			
Accounts payable and accrued expenses	269,559	(166,002)	(274,810)
Estimated third-party payor settlements	221,000	190,000	-0-
Net cash provided (used) by operating activities	$ 2,290,471	$ 798,140	$ 1,798,218

See accompanying notes to financial statements.

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organizations

Homer Memorial Hospital (the "Hospital") operates as an enterprise fund of the Town of Homer, Louisiana. The Hospital is controlled by a board of directors, who are a separate and distinct body from the Selectmen of the Town of Homer. The board members consist of citizens appointed by the Mayor and Selectmen of the Town of Homer. The board members serve without compensation.

As the governing authority of the Town, for reporting purposes, the Town of Homer is the financial reporting entity for the Hospital. Accordingly, the Hospital was determined to be a component unit of the Town of Homer based on Statement No. 14 of the National Committee on Governmental Accounting. The accompanying financial statements present information only on the funds maintained by the governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity.

Claiborne Healthcare Foundation, Inc. (the "Foundation") was incorporated January 1, 2007, as a Louisiana non-profit organization to support specific capital projects that compliment the mission of Homer Memorial Hospital. The Hospital Board has pledged to fund the operational expenses of the Foundation so that 100% of the contributions to the Foundation can be allocated according to the donors' restrictions. The Foundation is included in the Hospital's reporting entity because of the significance of its operational and financial relationship with the Hospital. Collectively, Homer Memorial Hospital and its affiliate are hereafter referred to as the "Hospital".

Nature of Business

The Hospital provides inpatient and outpatient and emergency hospital services, as well as skilled nursing (through "swing beds"), home health, and inpatient psychiatric services to patients from Claiborne and surrounding parishes and counties.

The Foundation's purpose is to engage in the solicitation, receipt and administration of funds and property, and from time to time, to disburse such funds or property and the income therefrom, to or for the benefit of the Hospital.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enterprise Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting,* as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. Such accounting and reporting procedures conform to the requirements of the Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, and to the AICPA, Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants and standards set by the Governmental Accounting Standards Board (GASB), which is the accepted standard setting body for establishing governmental accounting and financial reporting principles in the United States of America.

Principles of Combination

The accompanying financial statements include the accounts and transactions of the Hospital combined with its affiliate, Claiborne Healthcare Foundation, Inc. All material intercompany accounts and transactions have been eliminated.

Income Taxes

Homer Memorial Hospital is a political subdivision and exempt from taxation. The Foundation has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. The Foundation has been classified as an organization other than a private foundation.

The Foundation adopted the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The Foundation recognizes the effect of income tax positions only if the positions are more likely than not of being sustained. Recognized income tax positions are recorded at the largest amount that is greater than 50% likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs.

The Foundation has evaluated its positions regarding the accounting for uncertain income tax positions and does not believe that it has any material uncertain tax positions. With few exceptions, the Foundation is no longer subject to federal, state, or local tax examinations by tax authorities for years before June 30, 2007.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking and money market accounts and certificates of deposit with original maturities of 90 days or less. Certificates of deposit with original maturities over 90 days are classified as short-term investments. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements, designated assets set aside by the Foundation Board, restricted by contributors' designations for capital projects and designated assets set aside by the Hospital Board, over which the Hospital Board retains control and may at its discretion subsequently use for other purposes.

Inventory

Inventories are stated at the lower of cost determined by the first-in, first-out method, or market basis.

Capital Assets

Capital assets are recorded at cost for purchased assets or at fair market value on the date of any donation. The Hospital uses the straight-line method of calculating depreciation for financial reporting and third-party reimbursement. The following estimated useful lives are generally used.

Building and Improvements	5 to 40 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	5 to 20 years

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred. The Hospital capitalizes depreciable property and equipment valued at $5,000 or more, with a useful life greater than two years. The cost of assets retired or otherwise disposed of and related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are credited or charged to operations currently.

Unamortized Bond Costs

Unamortized bond costs represent the cost of debt issuance and are being amortized over the term the related debt is outstanding.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net assets of the Hospital are classified in four components. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowing used to finance the purchase or construction of those assets. Restricted expendable net assets are non capital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. Restricted nonexpendable net assets equal the principal portion of permanent endowments. The Hospital has no restricted nonexpendable net assets at this time. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, not including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Grants and Contributions

From time to time, the Hospital receives grants and contributions from individuals or private and public organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as operating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Net Patient Service Revenue

The Hospital has agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Credit Risk

The Hospital is located in Homer, Louisiana. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The Hospital's estimate of collectability is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

Significant Concentration of Economic Dependence

The Hospital has an economic dependence on a small number of staff physicians. These physicians admit over 90% of the Hospital's patients. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 4. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.

Risk Management

The Hospital is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters; except for workers compensation, general, and professional liability claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years. See Note 14 for discussion of workers compensation liability risk and professional and general liability risk.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year classifications.

NOTE 3 - DEPOSITS AND INVESTMENTS

Funds may be invested in direct obligations of the United States Government and its agencies pledged by its full faith and credit, certificates of deposit and savings accounts which are secured by FDIC or pledge of securities, and government backed mutual or trust funds. Louisiana law requires banks and savings and loan associations to secure a government's deposits (cash in banks) by pledging qualifying securities as collateral. For this purpose "cash in banks" is comprised of the account balances according to the banks' records.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Account balances according to banks' records at June 30, 2011, for the Hospital are as follows:

	First Guaranty	Bancorp South
Cash in banks	$ 4,108,424	$ 3,411
Insured by FDIC	$ 250,000	$ 250,000
Collateralization at fair market value	$ 3,858,424	$ -0-
Uncollateralized	$ -0-	$ -0-

Account balances according to banks' records at June 30, 2011, for the Foundation are as follows:

	First Guaranty	Citizens Bank	Gibsland Bank
Cash in banks	$ 284,773	$ 256,311	$ 153,121
Insured by FDIC	$ 284,773	$ 250,000	$ 250,000
Collateralization at fair market value	$ -0-	$ 6,311	$ -0-
Uncollateralized	$ -0-	$ -0-	$ -0-

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. Homer Memorial Hospital's deposits were entirely insured or collateralized by securities held by the pledging bank's trust department in the Hospital's name at June 30, 2011, 2010, and 2009. The Affiliate's (Foundation) deposits were entirely insured or collateralized by securities held by the pledging bank's trust department in the Affiliate's name at June 30, 2011 and 2010. At June 30, 2009, $73,514 of the Affiliate's (Foundation) deposits were not insured or collateralized.

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer an investment takes to mature, the greater the sensitivity of its fair value is to changes in market interest rates. The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The carrying amounts of deposits and investments are included in the Hospital's balance sheets as follows:

	2011	2010	2009
Carrying amount			
Deposits	$ 1,703,067	$ 2,016	$ 118,526
Investments	3,292,656	3,250,419	2,765,471
Totals	$ 4,995,723	$ 3,252,435	$ 2,883,997
Included in the following balance sheet captions			
Cash and cash equivalents	$ 1,703,067	$ 2,016	$ 118,526
Short-term investments	516,846	786,267	54,370
Assets limited as to use - current	321,969	334,296	383,432
Assets limited as to use - noncurrent	2,453,841	2,129,856	2,327,669
Totals	$ 4,995,723	$ 3,252,435	$ 2,883,997

NOTE 4 - RECEIVABLES, NET

A summary of net receivables at June 30 is presented below:

	2011	2010	2009
Accounts receivable			
Patient accounts receivable	$ 5,888,209	$ 5,319,373	$ 5,860,869
Estimated uncollectibles	(2,778,000)	(2,756,000)	(2,840,676)
Net patient accounts receivable	3,110,209	2,563,373	3,020,193
Third-party cost based settlements	(5,634)	51,760	(145,705)
Receivables, net	$ 3,104,575	$ 2,615,133	$ 2,874,488

NOTE 4 - RECEIVABLES, NET (Continued)

The following is a summary of the mix of gross receivables from patients and third-party payors at June 30:

	2011	2010	2009
Medicare	40%	39%	42%
Medicaid	15%	12%	9%
Other third-party payors	11%	10%	14%
Others	34%	39%	35%
Total	100%	100%	100%

NOTE 5 - ASSETS LIMITED AS TO USE

The components of assets limited as to use at June 30, is set forth in the following table. Investments are stated at fair value and are comprised primarily of certificates of deposit and money market brokerage accounts.

	2011	2010	2009
Restricted by third parties			
Capital improvement	$ 715,518	$ 608,065	$ 323,514
Self-funded insurance fund	321,811	334,138	383,274
Total restricted by third parties	1,037,329	942,203	706,788
Internally designated by board			
Education fund	158	158	158
Long-term investment fund	1,291,915	1,279,065	1,051,443
Investment fund	446,408	242,726	952,712
Total internally designated by board	1,738,481	1,521,949	2,004,313
Total assets limited as to use	2,775,810	2,464,152	2,711,101
Less: Current portion	321,969	334,296	383,432
Non current assets limited as to use	$ 2,453,841	$ 2,129,856	$ 2,327,669

NOTE 6 - OTHER CURRENT ASSETS

The Hospital provided educational assistance to selected medical students and certain employees who contractually agree to return to the Hospital's service area after graduation. Under the terms of these contracts, the Hospital advanced funds to assist the students in their educational costs. Students agree to repay the loan through extended employment at the Hospital. Medical students repay the loan by practicing in the Hospital service area for a period of years.

The loans, including interest, become immediately due and payable to the Hospital if the employee or medical student does not provide services for the Hospital for the full period of time within the contract. These loans are classified as current assets in the financial statements. The following is a summary of the net education contracts receivable at June 30.

	2011	2010	2009
Balance, beginning of year	$ 7,806	$ 9,650	$ 11,259
Advances on education loans	-0-	1,500	3,000
Assessment of interest on balances due	-0-	187	452
Changes in allowance for doubtful collections	-0-	-0-	(2,200)
Cancellation and repayments of contracts	(730)	(1,000)	(460)
Principal and interest paid	-0-	(2,531)	(2,401)
Balance, end of year	$ 7,076	$ 7,806	$ 9,650

Included in Other Current Assets at June 30, 2010, is $651 miscellaneous receivable.

NOTE 7 - CAPITAL ASSETS

The following is a summary of capital assets and related accumulated depreciation at June 30:

	June 30, 2010	Additions	Deductions	June 30, 2011
Land and improvements	$ 369,546	$ -0-	$ -0-	$ 369,546
Buildings and improvements	9,848,707	72,152	-0-	9,920,859
Leasehold improvements	20,620	-0-	-0-	20,620
Equipment	7,021,014	303,946	244,445	7,080,515
Construction in progress	45,407	524,921	367,299	203,029
Total	17,305,294	901,019	611,744	17,594,569
Accumulated depreciation	(11,794,660)	(925,484)	(244,444)	(12,475,700)
Net	$ 5,510,634	$ (24,465)	$ 367,300	$ 5,118,869

NOTE 7 - CAPITAL ASSETS (Continued)

The following is a summary of capital assets and related accumulated depreciation at June 30:

	June 30, 2009	Additions	Deductions	June 30, 2010
Land and improvements	$ 356,315	$ 13,231	$ -0-	$ 369,546
Buildings and improvements	9,719,924	128,783	-0-	9,848,707
Leasehold improvements	20,620	-0-	-0-	20,620
Equipment	6,456,904	946,882	382,772	7,021,014
Construction in progress	152,768	801,539	908,900	45,407
Total	16,706,531	1,890,435	1,291,672	17,305,294
Accumulated depreciation	(11,178,748)	(908,917)	(293,005)	(11,794,660)
Net	$ 5,527,783	$ 981,518	$ 998,667	$ 5,510,634

The following is a summary of capital assets and related accumulated depreciation at June 30:

	June 30, 2008	Additions	Deductions	June 30, 2009
Land and improvements	$ 350,815	$ 5,500	$ -0-	$ 356,315
Buildings and improvements	9,527,999	191,925	-0-	9,719,924
Leasehold improvements	20,620	-0-	-0-	20,620
Equipment	6,193,821	269,923	6,840	6,456,904
Construction in progress	152,110	483,364	482,706	152,768
Total	16,245,365	950,712	489,546	16,706,531
Accumulated depreciation	(10,260,741)	(924,702)	(6,695)	(11,178,748)
Net	$ 5,984,624	$ 26,010	$ 482,851	$ 5,527,783

NOTE 8 - LONG-TERM DEBT

A summary of long-term debt and capital lease obligations at June 30 follows:

	June 30, 2010	Additions	Payments	June 30, 2011	Due Within One Year
2007 Series bonds payable	$ 1,387,316	$ -0-	$ 205,319	$ 1,181,997	$ 211,707
Capital lease payable	134,091	-0-	23,003	111,088	37,099
2009 Series bonds payable	377,950	-0-	81,436	296,514	84,773
2010 Series bonds payable	-0-	254,406	30,833	223,573	48,152
Total	$ 1,899,357	$ 254,406	$ 340,591	$ 1,813,172	$ 381,731

	June 30, 2009	Additions	Payments	June 30, 2010	Due Within One Year
2007 Series bonds payable	$ 1,583,429	$ -0-	$ 196,113	$ 1,387,316	$ 201,403
Capital lease payable	134,091	-0-	-0-	134,091	38,952
2009 Series bonds payable	-0-	430,500	52,550	377,950	95,264
Total	$ 1,717,520	$ 430,500	$ 248,663	$ 1,899,357	$ 335,619

	June 30, 2008	Additions	Payments	June 30, 2009	Due Within One Year
2007 Series bonds payable	$ 1,770,787	$ -0-	$ 187,358	$ 1,583,429	$ 191,600
Capital lease payable	-0-	134,091	-0-	134,091	-0-
Notes payable	133,794	-0-	133,794	-0-	-0-
Total	$ 1,904,581	$ 134,091	$ 321,152	$ 1,717,520	$ 191,600

The terms and due dates of the Hospital's long-term debt, including capital lease obligations, at June 30, 2011, 2010 and 2009, follow:

- 5.0% 2007 Hospital revenue bonds, principal and interest payable in monthly payments of $22,127, collateralized by a pledge of the Hospital's land, buildings, and equipment. Bonds mature on June 15, 2016.
- Capital lease obligation with imputed interest rate of 5%, collateralized by equipment with a cost of $134,091 and book value of $97,376 at June 30, 2011. Principal and interest of 48 monthly payments of $3,246 began July, 2010.
- 4.0% 2009 Hospital revenue bonds, principal and interest payable in monthly payments of $7,939, collateralized by a pledge of Hospital operating revenue. Bonds mature on October 15, 2014.
- 4.0% 2010 Hospital revenue bonds, principal and interest payable in monthly payments of $4,696, collateralized by a pledge of Hospital operating revenue. Bonds mature on October 15, 2015.

NOTE 8 - LONG-TERM DEBT (Continued)

Under the terms of the 2007, 2009 and 2010 revenue bonds, the Hospital is required to satisfy certain measures of financial performance as long as the bonds are outstanding. The 2007, 2009 and 2010 revenue bonds also place limits on the incurrence of additional borrowings. The Hospital did not meet the 120 day reporting requirement for the year ended June 30, 2011. However, the Hospital did receive a waiver from the lending institution.

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

	Long-Term Debt		Capital Lease Obligations	
Year Ending June 30,	Principal	Interest	Principal	Interest
2012	$ 344,632	$ 72,510	$ 37,099	$ 5,099
2013	361,004	56,138	36,072	2,880
2014	378,111	39,031	37,917	1,035
2015	331,773	21,860	-0-	-0-
2016	277,092	7,215	-0-	-0-
Total	$ 1,692,612	$ 196,754	$ 111,088	$ 9,014

NOTE 9 - OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rental charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2011, that have initial or remaining lease terms in excess of one year.

Year Ending June 30	Amount
2012	$ 11,356
2013	11,356
2014	2,839
2015	-0-
2016	-0-
Total minimum lease payments	$ 25,551

NOTE 10 - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital qualified for a Medicare low volume add-on for inpatient payments. These payments are effective for discharges occurring October 1, 2010, until September 30, 2012, if not extended by Congress. The additional payment received under the Medicare low volume add-on was approximately $377,000 for the year ended June 30, 2011. This add-on is based on federal fiscal years that end September 30, so the Hospital will receive this add-on during three fiscal years. Certain outpatient services related to Medicare beneficiaries are paid based on a set fee per diagnosis, with a hold harmless provision for partial cost reimbursement for some of these services until December 31, 2012, if not extended by Congress. The hold harmless payments were $167,000, $237,000, and $207,000 for the years ended June 30, 2011, 2010, and 2009, respectively. Swing bed services are reimbursed based on a prospectively determined rate per patient day based on clinical, diagnostic, and other factors. Inpatient psychiatric services are reimbursed based upon prospective methodology adjusted for diagnosis and length of stay.

Medicaid - Inpatient acute and psychiatric services are reimbursed based on a prospectively determined per diem rate. Some outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, while others are paid prospectively based on a fee schedule. Medicaid paid the Hospital approximately $737,000 during the year ended June 30, 2011, as an incentive for implementing electronic health records. Payments can be retained and additional payments can be earned if the Hospital meets certain criteria in future implementation, subject to audit. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Commercial - The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Payment methods under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

Home health services are paid by Medicare under a per episode prospective payment system (PPS) and by Medicaid under a PPS per visit method. Commercial and uninsured visits are not significant.

The Hospital's previous reimbursements are also subject to secondary review by Medicare and Medicaid representatives. These representatives have several initiatives in progress. No material liabilities have been identified to date under these review programs; however, the potential exists for future claims. These will be recognized in the year the amounts are determined, if any.

Additionally, the Hospital foregoes charges relating to Medicare, Medicaid and other third-party payors.

NOTE 10 - NET PATIENT SERVICE REVENUE (Continued)

Following is a schedule of patient service revenue at established rates and charges foregone for the years ended June 30:

	2011	2010	2009
Gross patient service charges	$ 43,972,186	$ 41,599,390	$ 39,540,542
Medicaid uncompensated care, net of recoveries	169	121,914	741,092
Medicare and Medicaid contractual adjustments	(18,257,356)	(17,772,751)	(16,238,428)
Other third-party payor contractual adjustments	(4,166,329)	(4,028,152)	(4,907,851)
Provision for bad debts	(2,861,578)	(3,097,244)	(2,668,987)
Charity care	(56,130)	(13,426)	-0-
Net patient service revenue	$ 18,630,962	$ 16,809,731	$ 16,466,368

The Hospital receives a substantial portion of its revenue from the Medicare and Medicaid programs at discounted rates. The following is a summary of Medicare and Medicaid patient revenues for the years ended June 30:

	2011	2010	2009
Medicare and Medicaid gross patient charges	$ 33,784,526	$ 31,189,888	$ 28,848,961
Contractual adjustments	18,257,356	17,772,751	16,238,428
Program patient service revenue without Medicaid UCC	$ 15,527,170	$ 13,417,137	$ 12,610,533
Percent of total gross patient charges	77%	75%	73%
Percent of total net patient revenue	83%	80%	77%

The Hospital received interim payments of $221,169, $995,115, and $715,875, for Medicaid and self-pay uncompensated care services (UCC) during the years ended June 30, 2011, 2010, and 2009, respectively, which represents 1%, 6%, and 4% of net patient service revenues, respectively. The interim payments received are based upon uncompensated cost incurred in previous years. Current regulations limit UCC to actual cost incurred by the Hospital in each state fiscal year. Any overpayments will be recouped by Medicaid after audit by Medicaid. The federal definition of UCC changed effective July 1, 2010, which reduced income in 2011 and for future years. The Hospital has made provisions for recoupment of $221,000, $873,000, and $200,000 for fiscal years 2011, 2010, and 2007, respectively. With the exception of 2011, 2010, and 2007, management contends interim amounts paid reasonably estimate final settlement. To the extent management's estimates differ from actual results, the differences will be used to adjust income for the period when differences arise. Future UCC payments are dependent upon State appropriations, which require annual approval by the State legislature.

NOTE 11 - CHARITY CARE

The amount of charges foregone for services and supplies furnished under the Hospital's charity care policy aggregated approximately $56,130, $13,426, and $0, in 2011, 2010, and 2009, respectively. The costs, as determined using total cost of facility divided by the total gross patient revenues of the facility times the charity care charges, are $27,147, $6,320, and $0, in 2011, 2010, and 2009, respectively.

NOTE 12 - COMPENSATED ABSENCES

As of June 30, 2011, 2010, and 2009, the Hospital has accrued a compensated absence liability of $251,645, $202,791, and $228,027, respectively. The Hospital pays accrued vacation absences upon termination, if proper notice and termination procedures are followed.

NOTE 13 - PENSION PLAN

Until December 31, 2006 all full-time Hospital employees participated in the Municipal Employees' Retirement System, State of Louisiana ("System"), a multiple employer public employee retirement system. The payroll for Hospital employees covered by the System for the years ended June 30, 2011, 2010, and 2009, was approximately $52,000, $76,000, and $100,000, respectively; the Hospital's total payroll was approximately $7,661,000, $7,176,000, and $7,236,000 for the years ended June 30, 2011, 2010, and 2009, respectively.

Membership was mandatory as a condition of employment beginning on the date employed if the employee was on a permanent basis working at least thirty-five hours per week, not participating in another publicly funded retirement system, and under the age of sixty at the date of employment.

The System is comprised of two plans. "Plan A" combines the original plan and a supplemental plan, while "Plan B" involves only the original plan. Any member of Plan A can retire provided he/she is age fifty-five with twenty-five years of creditable service, is age sixty with a minimum of ten years of creditable service or at any age with thirty or more years of creditable service. A member of Plan B can retire provided he/she is age fifty-five with thirty years of creditable service or is age sixty with a minimum of ten years of creditable service.

In lieu of terminating employment and accepting a service retirement allowance, any member of Plan A or B, with thirty years of service at age fifty-five; twenty years of service at age sixty; fifteen years of service at age sixty-two; or ten years of service at age sixty-five, could elect to participate in the deferred retirement option plan (DROP) for up to two years and defer the receipt of benefits. Upon commencement of participation in the DROP plan, membership in the System terminated.

During participation in the DROP plan, employer contributions were payable but employee contributions ceased. The monthly retirement benefits that would have been payable, had the person elected to cease employment and receive a service retirement allowance were paid into the DROP fund. This fund does not earn interest. In addition, no cost of living increases were payable to participants until employment which made them eligible to become members in the System had been terminated for at least one full year. Upon termination of employment prior to or at the end of the specified period of participation, a participant in the plan could receive, at his option, a lump sum from the account equal to the payment into the account, a true annuity

NOTE 13 - PENSION PLAN (Continued)

based upon his actual balance in that fund, or any other method of payment if approved by the board of trustees. The monthly benefits that were being paid into the deferred retirement option plan fund would begin to be paid to the retiree. If a participant died during the participation in the plan, a lump sum equal to his account balance in the plan fund was paid to his named beneficiary or, if none, to his estate. If employment was not terminated at the end of the two years, payments into the plan fund cease and the person resumes active contributing membership in the System. Additional accrued benefits were based on final average compensation used to calculate the member's original benefit unless the additional period of service was at least thirty-six months.

Generally, the monthly amount of retirement allowance for any member of Plan A or Plan B would consist of an amount equal to three percent or two percent, respectively, of the member's final compensation multiplied by his/her years of creditable service. However, under certain conditions as outlined in the statutes, the benefits were limited to specified amounts. Both plans provided for death and disability benefits. Benefits and employer/employee obligations to contribute were established by state statute.

Each participating employer of Plan A contributed an amount equal to 13.5% of each and every member's earnings through June 30, 2011. Each employee in Plan A contributed 9.25% of monthly earnings. Under Plan B, each participating employer contributed an amount equal to 6.75% of each and every member's earnings. Each employee in Plan B contributed 5% of monthly earnings.

The System also receives 1/4 of 1% of ad valorem taxes collected within the parishes of Louisiana, except for Orleans Parish.

Tax monies are apportioned between Plan A and Plan B in proportion to the salaries of plan participants. These additional sources of income are used as additional employer contributions. The remaining employer contributions were determined according to actuarial requirements and were set annually. The contribution requirement for the years ended June 30, 2011, 2010, and 2009, was approximately $12,000, $17,000, and $23,000, respectively, which consisted of $7,000, $10,000, and $14,000, respectively, from the Hospital and $5,000, $7,000, and $9,000, respectively, from the employees during 2011, 2010, and 2009.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted to the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and employees. The System does not make separate measurement of assets and pension benefits obligation for individual employers. The pension benefit obligation at June 30, 2010, (the latest actuarial report furnished to the Hospital), for the System as a whole, determined through an actuarial valuation performed as of that date (valued at market) was approximately $932 million. The System's net assets available for benefits on that date (valued at market) were approximately $852 million, with an unfunded pension benefit obligation of $80 million. The Hospital's contributions for the years ended June 30, 2011, 2010, and 2009, represented approximately .03%, .04%, and .06% of total contributions paid by all participating entities, respectively. A report of five-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's annual financial report. No securities of the Hospital are held by the System.

NOTE 13 - PENSION PLAN (Continued)

The Hospital withdrew from the Municipal Employees' Retirement System effective December 31, 2006.

Effective January 1, 2007, employees may participate in a qualified defined contribution retirement plan (exempt under Section 457(b) of the Internal Revenue Code). Each employee is eligible to join the plan upon completion of 90 days of continuous full-time employment. Employees are immediately 100% vested on contributions to the plan through a salary reduction agreement.

Effective January 1, 2007, the Hospital sponsors a money purchase pension plan (exempt under Section 401(a) of the Internal Revenue Code). The Hospital contributes a match amount equal to the 457(b) employee deferral contribution up to a maximum of 5% of compensation for eligible employees that are actively employed on the last day of each plan year.

Acuff and Associates is the third party administrator of the 457(b) and the 401(a) plans. The Board of Commissioners adopted these plans and may change the terms of the plans to improve administration and can, at their discretion, increase or decrease the contribution percentages.

Following is a schedule that summarizes information regarding the defined contribution retirement plans in effect for the years ended June 30, 2011, 2010, and 2009:

	2011	2010	2009
Total payroll	$ 7,661,000	$ 7,176,000	$ 7,236,000
Total covered payroll	7,608,000	7,100,000	7,136,000
Employee contributions	194,000	216,000	251,000
Employer contributions	152,000	184,000	217,000

NOTE 14 - CONTINGENCIES

The Hospital evaluates contingencies based upon the best available evidence. To the extent that resolution of contingencies results in amounts which vary from the Hospital's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 2) - The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments cannot be determined.

Further, in order to continue receiving reimbursement from the Medicare programs, the Hospital entered into an agreement with a government agent allowing the agent access to the Hospital's Medicare patient medical records for purposes of making medical necessity and appropriate level of

NOTE 14 - CONTINGENCIES (Continued)

care determination. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the Hospital. The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as privacy, licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Professional and General Liability Risk - Effective for claims filed after May 1, 2004, the Hospital discontinued professional and general liability insurance coverage through the Louisiana Hospital Association Trust Fund. The Hospital continues to participate in the Louisiana Patient's Compensation Fund ("PCF") established by the State of Louisiana to provide medical professional liability coverage to health care providers. The PCF provides for $400,000 in coverage for actual claims (attorney fees are the Hospital's responsibility) per occurrence above the first $100,000 per occurrence for which the Hospital is at risk. The PCF places no limitation on the number of occurrences covered. In connection with the establishment of the Patient's Compensation Fund, the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to $100,000 per occurrence and limited the PCF's exposure to $400,000 per occurrence.

The Hospital included provision of $28,000, $48,000, and $48,000 at June 30, 2011, 2010, and 2009, respectively, for professional liability losses and legal defense costs not covered by the Louisiana Patient's Compensation Fund. The Hospital is contingently liable for losses and related defense costs from professional liability not underwritten by the Louisiana Patient's Compensation Fund.

The Hospital included no provision at June 30, 2011, 2010, and 2009 for uninsured general liability losses. The Hospital is contingently liable for losses and related defense costs from general liability.

A reconciliation of the changes in the aggregate uninsured professional and general liability is as follows:

	Professional/General Liability		
	2011	2010	2009
Balance, beginning of year	$ 48,000	$ 48,000	$ 58,000
Claim payments	(29,000)	(55,000)	(63,000)
Change in estimate	9,000	(1,000)	(18,000)
Incurred claims	-0-	56,000	71,000
Balance, end of year	$ 28,000	$ 48,000	$ 48,000

NOTE 14 - CONTINGENCIES (Continued)

Workers' Compensation Liability Risk - Effective for claims filed after August 1, 2004, the Hospital discontinued workers' compensation insurance coverage. The Hospital included a provision of $35,000, $13,000, and $13,000 at June 30, 2011, 2010, and 2009 for uninsured workers' compensation losses and related defense costs. The Hospital is contingently liable for losses and related defense costs from workers' compensation.

A reconciliation of the changes in the aggregate uninsured workers' compensation liability is as follows:

	Workers' Compensation		
	2011	2010	2009
Balance, beginning of year	$ 13,000	$ 13,000	$ 82,000
Claim payments	(3,000)	(35,000)	-0-
Change in estimate	23,200	(10,000)	(87,000)
Incurred claims	1,800	45,000	18,000
Balance, end of year	$ 35,000	$ 13,000	$ 13,000

NOTE 15 - GRANT REVENUE

The Hospital received a grant of $704,434 in 2011 to be used solely to provide adequate and essential medically necessary health care services to the citizens in its community who are low income and/or indigent patients. As a condition of the grant agreement, the Hospital, along with the other participating hospitals, has agreed to indemnify the grantors for claims that may arise out of this grant agreement. Various other grants were received during the year for other uses.

NOTE 16 - CLAIBORNE HEALTHCARE FOUNDATION (AFFILIATE)

The accompanying combined financial statements include the accounts of the Foundation, with intercompany accounts eliminated. Foundation contributions received of $148,469, $307,204, and $239,692 are included in capital grants and contributions for the years ended June 30, 2011, 2010, and 2009, respectively. Hospital support of operational expenses for the Foundation were $112,865, $140,621, and $145,538 during years ended June 30, 2011, 2010, and 2009, respectively.

Following is a summary of net assets and results of operations of the Foundation as of June 30, 2011, 2010, and 2009.

NOTE 16 - CLAIBORNE HEALTHCARE FOUNDATION (AFFILIATE) (Continued)

	2011	2010	2009
ASSETS			
Limited use assets	$ 715,518	$ 608,065	$ 323,514
NET ASSETS	$ 715,518	$ 608,065	$ 323,514
REVENUE			
Contributions from third parties	$ 140,164	$ 193,141	$ 239,692
Non-cash contributions from third parties	8,305	114,063	-0-
Non-cash contributions from Hospital	112,865	140,621	145,538
Interest & gain/loss on investments	7,732	3,754	2,855
Total Revenue	269,066	451,579	388,085
EXPENSES			
Grants to Homer Memorial Hospital	48,748	24,500	-0-
Other expense	-0-	1,907	-0-
Administrative expense	112,865	140,621	145,538
Total Expenses	161,613	167,028	145,538
Excess of revenues over expenses	$ 107,453	$ 284,551	$ 242,547

NOTE 17 - SUBSEQUENT EVENTS

On August 8, 2011, Homer Memorial Hospital entered into an agreement with a contractor and an architect for an addition to and renovation of the intensive care unit. The cost of the project is $1,216,000.

Events have been evaluated through November 8, 2011, for subsequent event disclosure. This date is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2011, 2010, AND 2009

	2011	2010	2009
Routine services:			
Adult and pediatric	$ 5,775,941	$ 5,561,912	$ 5,571,301
Intensive care unit	929,197	807,006	895,712
Senior care	3,389,547	2,289,373	1,368,510
Nursery	10,281	22,907	25,237
Swing bed	269,704	181,772	125,760
Total routine services	10,374,670	8,862,970	7,986,520
Other professional services:			
Operating room			
Inpatient	113,059	454,256	1,404,452
Outpatient	366,618	380,632	697,077
Total	479,677	834,888	2,101,529
Anesthesia			
Inpatient	5,684	7,436	10,832
Outpatient	18,397	12,778	14,397
Total	24,081	20,214	25,229
Radiology			
Inpatient	2,177,854	2,381,727	2,232,548
Outpatient	4,301,080	4,511,101	4,604,118
Total	6,478,934	6,892,828	6,836,666
Laboratory			
Inpatient	3,397,049	3,365,571	3,034,187
Outpatient	2,309,026	2,075,082	1,993,098
Total	5,706,075	5,440,653	5,027,285
Blood			
Inpatient	622,254	577,758	557,233
Outpatient	174,927	164,800	128,120
Total	$ 797,181	$ 742,558	$ 685,353

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30, 2011, 2010, AND 2009

	2011	2010	2009
Respiratory therapy			
Inpatient	$ 3,428,228	$ 3,487,302	$ 2,993,408
Outpatient	329,084	301,732	251,271
Total	3,757,312	3,789,034	3,244,679
Physical therapy			
Inpatient	230,904	174,780	107,149
Outpatient	1,548	1,109	258
Total	232,452	175,889	107,407
Occupational therapy			
Inpatient	171,122	98,290	125,406
Outpatient	1,032	1,464	2,808
Total	172,154	99,754	128,214
Electrocardiology			
Outpatient	6,194	7,172	11,064
Total	6,194	7,172	11,064
Central supply			
Inpatient	1,095,047	855,374	591,543
Outpatient	387,100	248,060	90,638
Total	1,482,147	1,103,434	682,181
Pharmacy			
Inpatient	9,022,780	8,044,189	7,205,199
Outpatient	1,675,702	1,343,564	1,050,251
Total	10,698,482	9,387,753	8,255,450
Outpatient treatment area			
Outpatient	549,552	744,256	21,242
Total	$ 549,552	$ 744,256	$ 21,242

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30, 2011, 2010, AND 2009

	2011	2010	2009
Emergency room			
Inpatient	$ 375,942	$ 378,954	$ 489,455
Outpatient	2,046,458	2,240,796	2,948,852
Total	2,422,400	2,619,750	3,438,307
Neurology			
Inpatient	5,894	9,091	5,873
Outpatient	93,999	184,146	240,943
Total	99,893	193,237	246,816
Home health			
Skilled nursing visits	389,700	366,200	388,400
Physical therapy visits	83,200	46,500	53,800
Occupational therapy visits	118,600	142,000	140,200
Speech therapy visits	-0-	-0-	7,900
Social service visits	400	200	200
Aide visits	96,100	130,100	152,100
Medical supplies	2,982	-0-	-0-
Total	690,982	685,000	742,600
Other professional services			
Inpatient	20,645,817	19,834,728	18,757,285
Outpatient	12,260,717	12,216,692	12,054,137
Home health	690,982	685,000	742,600
Total other professional services	33,597,516	32,736,420	31,554,022
Gross patient service charges	43,972,186	41,599,390	39,540,542
Contractual adjustments	22,423,685	21,800,903	21,146,279
Provision for bad debts	2,861,578	3,097,244	2,668,987
Charity care	56,130	13,426	-0-
Uncompensated care reimbursement, net of recoveries	(169)	(121,914)	(741,092)
Total patient service allowances	25,341,224	24,789,659	23,074,174
Net patient service revenue	$ 18,630,962	$ 16,809,731	$ 16,466,368

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED SCHEDULES OF OTHER OPERATING REVENUE
YEARS ENDED JUNE 30, 2011, 2010, AND 2009

	2011	2010	2009
Cafeteria	$ 60,638	$ 57,193	$ 62,507
Medical records	5,554	10,363	6,780
Vending machines	16,465	11,485	2,871
Rentals	1,462	5,409	5,400
Pharmacy sales to employees	71,383	64,310	40,662
Miscellaneous	81,447	52,334	60,239
Total other operating revenue	$ 236,949	$ 201,094	$ 178,459

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED SCHEDULES OF OPERATING EXPENSES – SALARIES AND BENEFITS
YEARS ENDED JUNE 30, 2011, 2010, AND 2009

	2011	2010	2009
Salaries:			
Administrative and general	$ 1,018,356	$ 899,675	$ 896,585
Plant operations and maintenance	86,776	101,091	81,976
Housekeeping	-0-	103,684	264,635
Dietary and cafeteria	173,080	161,606	156,335
Nursing administration	64,666	69,495	71,299
Central supply	86,579	68,099	71,811
Pharmacy	66,305	69,863	67,352
Medical records	247,122	238,583	247,470
Nursing services	2,412,057	2,242,311	2,116,932
Intensive care unit	539,921	530,518	533,913
Senior care unit	508,011	435,035	461,548
Nursery	9,663	15,491	14,075
Operating room	198,488	194,497	215,400
Radiology	340,557	366,282	307,200
Laboratory	373,058	360,723	348,317
Respiratory therapy	409,324	405,778	361,026
Emergency room	782,546	557,944	635,493
Home health	287,695	300,454	322,398
Outpatient treatment area	56,500	55,042	61,849
Total salaries	$ 7,660,704	$ 7,176,171	$ 7,235,614
Benefits and payroll taxes:			
Payroll taxes	$ 591,950	$ 558,502	$ 564,520
Health insurance	646,811	604,766	731,672
Retirement	238,539	170,373	205,194
Total benefits and payroll taxes	$ 1,477,300	$ 1,333,641	$ 1,501,386

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED SCHEDULES OF OPERATING EXPENSES – SUPPLIES AND DRUGS
YEARS ENDED JUNE 30, 2011, 2010, AND 2009

	2011	2010	2009
Administration	$ 438,043	$ 426,627	$ 473,276
Housekeeping	197,851	199,887	139,619
Maintenance	80,427	91,386	111,297
Dietary	308,019	254,464	258,284
Medical records	63,554	54,792	53,620
Adults and pediatrics	228,947	205,573	206,232
Intensive care unit	42,475	36,233	68,490
Nursery	-0-	1,119	1,243
Emergency room	103,592	103,452	114,093
Operating room	86,563	91,763	182,015
Anesthesiology	1,921	2,343	5,251
Radiology	376,163	355,971	416,254
Laboratory	343,345	353,981	347,667
Blood	249,879	223,188	213,925
Physical therapy	55	164	50
EKG	-0-	234	-0-
EEG	14,460	28,220	27,380
Central supply	8,378	11,139	19,932
Respiratory therapy	78,875	72,079	52,349
Pharmacy	1,376,740	1,216,016	1,163,040
Outpatient treatment area	10,460	10,746	(872)
Home health	39,761	32,785	51,845
Senior care	39,726	40,976	28,517
Total supplies and drugs	$ 4,089,234	$ 3,813,138	$ 3,933,507

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED SCHEDULES OF OPERATING EXPENSES – PROFESSIONAL FEES
YEARS ENDED JUNE 30, 2011, 2010, AND 2009

	2011	2010	2009
Adults and pediatrics	$ 78,825	$ 77,157	$ 77,827
Operating room	119,265	90,895	44,675
Anesthesiology	240,000	240,000	198,185
Radiology	44,975	48,820	138,095
Physical therapy	78,810	57,050	43,350
Occupational therapy	31,920	26,460	26,250
Pharmacy	334,848	377,662	345,648
Emergency room	771,175	797,500	638,097
Outpatient treatment area	136,100	141,151	-0-
Home health	158,722	162,530	131,940
Senior care	119,881	113,610	118,885
Dietary	36,560	26,378	20,055
Housekeeping	426,252	294,800	-0-
Medical records	8,400	936	-0-
Administration	99,229	104,693	116,892
Total professional fees	$ 2,684,962	$ 2,559,642	$ 1,899,899

HOMER MEMORIAL HOSPITAL AND AFFILIATE
COMBINED SCHEDULES OF OPERATING EXPENSES – OTHER EXPENSES
YEARS ENDED JUNE 30, 2011, 2010, AND 2009

	2011	2010	2009
Management fees	$ 73,980	$ 66,852	$ 65,544
Legal and accounting	246,136	264,710	94,351
Repairs and maintenance	168,279	200,110	142,523
Utilities	263,918	253,059	378,191
Telephone	80,258	59,918	65,301
Travel	30,956	30,173	31,414
Rentals	137,382	131,954	119,006
License, inspection and membership fees	48,035	74,400	38,303
Education	29,464	30,417	24,474
Postage	38,198	44,257	29,679
Public relations	17,976	8,290	24,559
Education contracts	730	1,000	3,414
Miscellaneous	96,589	184,624	96,901
Total other expenses	$ 1,231,901	$ 1,349,764	$ 1,113,660

HOMER MEMORIAL HOSPITAL AND AFFILIATE
SCHEDULE OF PER DIEM AND
OTHER COMPENSATION PAID TO HOSPITAL BOARD MEMBERS
YEARS ENDED JUNE 30, 2011, 2010, AND 2009

Commissioners:	---- TERM ---- BEGAN	ENDING	Compensation 2011
Mr. Wesley Emerson, Chairman	Jan. 2007	Dec. 2011	None
Mr. George Tigner, Vice-chairman	May 2010	Dec. 2012	None
Mrs. Chloe Ellen Watson, Secretary	Jan. 2006	Dec. 2010	None
Mrs. Alecia Levingston Smith	Jan. 2006	May 2010	None
Mayor Alecia Smith	June 2010	Dec. 2010	None
Mrs. Dottie Palmer	Jan. 2001	Dec. 2010	None
Mr. Mac Rushing	Jan. 2007	Dec. 2011	None
Mr. George Tigner	Jan. 2008	May 2010	None
Mrs. Charles Etta Johnson	Jan. 2003	Dec. 2012	None
Mr. Frederick Young	June 2010	Dec. 2010	None
Dr. Cliff Salmon	Medical Staff Representative		None
Mr. Thomas "Buddy" Pixley (Mayor's Designee effective January 2008)	Jan. 2000	May 2010	None
Dr. Nelson Philpot	Jan. 2011	Dec. 2015	None
Mr. Eddie Robinson	Jan. 2011	Dec. 2015	None

HOMER MEMORIAL HOSPITAL AND AFFILIATE
SCHEDULE OF INSURANCE COVERAGE
JUNE 30, 2011

RISK COVERED		COVERAGE	PERIOD
Directors & Officers Liability		$1,000,000	11/1/10 - 11/1/11
Commercial Insurance Package	Damage to Covered Property	$28,697,132	8/17/10 - 8/17/11
	Time Element Loss	Included	8/17/10 - 8/17/11
	Perishable Stock	$10,000,000	8/17/10 - 8/17/11
	Hazardous Substances	$250,000	8/17/10 - 8/17/11
	Expediting Expense	Follows Property	8/17/10 - 8/17/11
	Data Restoration	$50,000	8/17/10 - 8/17/11
Physician & Surgeons Prof. Liability	LHA Physicians Trust Per Occurrence	$100,000	3/1/11 - 3/1/12
	LHA Physicians Trust Annual Aggregate	$300,000	3/1/11 - 3/1/12
	LA Patients Comp Fund	$400,000	3/1/11 - 3/1/12
Commercial Automobile	Each Accident	$1,000,000	8/17/10 - 8/17/11
Excess Coverage for Workers Comp	Aggregate Retention	$1,000,000	10/1/10 - 10/1/11
Crime Policy	Employee Theft	$300,000	11/1/09 - 11/1/12
	ERISA	$300,000	11/1/09 - 11/1/12
ER Physicians Liability	Each Medical Incident	$1,000,000	7/1/10 - 7/1/11
	Aggregate	$3,000,000	7/1/10 - 7/1/11
Senior Care General Liability	General Aggregate Limit	$1,000,000	2/1/11 - 2/1/12
	Products / Completed Operations	Included	2/1/11 - 2/1/12
	Personal & Advertising Injury Limit	$1,000,000	2/1/11 - 2/1/12
	Each Occurrence Limit	$1,000,000	2/1/11 - 2/1/12
	Damage to Premises Rented	$50,000	2/1/11 - 2/1/12
Patient's Compensation Fund		$125,000	3/1/11 - 3/1/12

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Homer Memorial Hospital
Homer, Louisiana

We have audited the combined financial statements of Homer Memorial Hospital and its affiliate (the Hospital) as of and for the years ended June 30, 2011, 2010 and 2009, and have issued our report thereon dated November 8, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any new deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain prior year deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and that we consider to be significant deficiencies in internal control over financial reporting: 2011-01, 2011-02, 2011-03, 2011-04, and 2011-05. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Hospital's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, and the office of the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

Lester, Miller & Wells

Certified Public Accountants
Alexandria, Louisiana

November 8, 2011

HOMER MEMORIAL HOSPITAL AND AFFILIATE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2011

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:
- Material weaknesses identified – No
- Significant deficiencies identified – Yes

Compliance:
- Noncompliance issues noted – No

Management letter issued – No

Federal Awards – Not applicable

Section II. Financial Statement Findings

2011-01- Patient Accounts Receivable

Finding: Allowances for Hospital patient accounts receivable were understated thereby overstating net patient service revenue. The Hospital calculates allowances based on payment percentages multiplied times gross patient accounts receivable; however, management did not take into account the timely filing requirements. A large number and amount of claims were past timely filing deadlines. Accurate interim reporting is essential to providing the Board with appropriate information for making informed decisions.

Recommendation: We suggest that management more closely monitor collection experience and more quickly react to changes that affect receivables reporting. Additionally, we suggest using recent paid claims history, four or five months, to establish collectible percentages, with adjustments for special circumstances such as price or payment changes which are not in historical trends.

Response: Due to the turnover of key personnel in the business office, accounts receivable was not monitored as closely as needed. The formula used to compute monthly contractual adjustments was based on total receivables by financial class not taking into consideration the age of the accounts. Formulas used to compute the estimated contractual adjustments each month will be changed to consider the age of the receivables. Also, the new business office manager will monitor accounts receivable closely to ensure that accounts do not exceed the timely filing deadlines.

Section II. Financial Statement Findings (Continued)

2011-02 - Charge Master

Finding: Charge master maintenance was performed by employees who lacked understanding of the accounting concept of matching revenue with related expenses. New charge codes were created with identifier digits inconsistent with the template initiated during the May 2008, computer conversion. Charge codes were created for items such as medical supplies and drugs with assignments to general ledger revenue accounts based on patient location such as emergency, surgery and nursing services, rather than the ancillary department primarily responsible for the service.

Recommendation: Management should review policies and procedures for the charge master committee, as well as execution of approved policies and procedures. Medical records, billing and accounting should have representatives on the committee. Authority for charge master maintenance duties should be limited to fully trained and supervised staff members. Revenue codes created since the May 2008, computer conversion should be reviewed and corrected so that future charges post consistently according to Hospital policy.

Response: The Charge Master Committee will review charge codes already created in the charge master and properly assign each to the general ledger revenue account consistent to the department where expense is captured. Management will review processes with the Charge Master Committee to ensure that charge codes are properly assigned when created to avoid reclassification at year end.

2011-03 - Home Health Patient Receivables

Finding: Allowances for home health patient receivables were understated thereby overstating net patient service revenue. The Hospital calculates home health allowances based on historical cash receipts and gross charges. However, management did not take into account unusual write-offs during the year. Accurate interim reporting is essential to providing the Board with appropriate information for making informed decisions.

Recommendation: We suggest that management more closely monitor collection experience and more quickly react to changes that affect receivables reporting. Additionally, we suggest using accounting reports from the home health patient receivables software to establish additional oversight and accounting controls over home health patient receivables valuation.

Response: Management now has the ability to access necessary reports from the home health agency software to properly record home health revenue. Management will work with home health personnel to ensure proper posting of accounts receivable and follow up on claims billed to ensure prompt payment. More priority will be placed on handling billing issues promptly in order to avoid unnecessary delays in payment. Procedures will be established to shift from reliance on a manual process of accumulating patient statistics to utilizing computer reports from the home health computer system.

Section II. Financial Statement Findings (Continued)

2011-04 - Financial Statements

Finding: In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, Statements on Auditing Standards 112 places more responsibility on management to ensure the proprietary and completeness of the financial statements and related footnotes. The staff responsible for preparation of the financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the resources necessary to internally complete the reporting requirements.

Recommendation: Management should either: (a) obtain the resources necessary to internally prepare or review the auditor's preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost of "a" overrides the benefit of correcting this control deficiency.

Response: Due to the Hospital's size, the cost of obtaining and/or training personnel with the complete knowledge of GAAP would not be cost effective.

2011-05 - Segregation of Duties

Finding: Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

Recommendation: We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes (1) separating transaction authorization from custody of related assets; (2) separating transaction recording from general ledger posting and maintenance; (3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend close supervision and review.

Response: Areas noted will be reviewed and further segregation of duties will be implemented where possible. For areas where segregation to the extent desired is not possible due to the size of the department, supervision and review by management will be increased.

Section III. Federal Award Findings

Not applicable

Section IV. Management Letter

Not applicable

HOMER MEMORIAL HOSPITAL AND AFFILIATE
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2011

Section I. Financial Statement Findings

2010-01- Charge Master

Fiscal Year Initially Reported: June 30, 2009

Finding: Charge master maintenance was performed by employees who lacked understanding of the accounting concept of matching revenue with related expenses. New charge codes were created with identifier digits inconsistent with the template initiated during May 2008, computer conversion. Charge codes were created for items such as medical supplies and drugs with assignments to general ledger revenue accounts based on patient location such as emergency, surgery and nursing services, rather than the ancillary department primarily responsible for the service.

Recommendation: Management should review policies and procedures for the charge master committee, as well as execution of approved policies and procedures. Medical records, billing and accounting should have representatives on the committee. Authority for charge master maintenance duties should be limited to fully trained and supervised staff members. Revenue codes created since the May 2008, computer conversion should be reviewed and corrected so that future charges post consistently according to Hospital policy.

Response: The Charge Master Committee will review charge codes already created in the charge master and properly assign each to the general ledger revenue account consistent to the department where expense is captured. Management will review processes with the Charge Master Committee to ensure that charge codes are properly assigned when created to avoid reclassification at year end.

Current Status: Not resolved - See finding 2011-02

2010-02- Home Health Patient Receivables

Fiscal Year Initially Reported: June 30, 2009

Finding: Allowances for home health patient receivables were understated thereby overstating net patient service revenue. The Hospital calculates home health allowances based on historical cash receipts and gross charges. However, management did not take into account unusual write-offs during the year. Accurate interim reporting is essential to providing the Board with appropriate information for making informed decisions.

Recommendation: We suggest that management more closely monitor collection experience and more quickly react to changes that affect receivables reporting. Additionally, we suggest using accounting reports from the home health patient receivables software to establish additional oversight and accounting controls over home health patient receivables valuation.

Response: Management now has the ability to access necessary reports from the home health agency software to properly record home health revenue. Management will work with home health personnel to ensure proper posting of accounts receivable and follow up on claims billed to ensure prompt payment. More priority will be placed on handling billing issues promptly in order to avoid unnecessary delays in payment. Procedures will be established to shift from reliance on a manual process of accumulating patient statistics to utilizing computer reports from the home health computer system.

Section I. Financial Statement Findings (Continued)

Current Status: Not resolved - See finding 2011-03

2010-03- Financial Statements

Fiscal Year Initially Reported: June 30, 2007

Finding: In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, Statements on Auditing Standards 112 places more responsibility on management to ensure the proprietary and completeness of the financial statements and related footnotes. The staff responsible for preparation of the financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the knowledge and/or resources necessary to internally complete the reporting requirements.

Recommendation: Management should either: (a) obtain the knowledge and/or resources necessary to internally prepare or review the auditor's preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost of "a" overrides the benefit of correcting this control deficiency.

Response: Due to the Hospital's size, the cost of obtaining and/or training personnel with the complete knowledge of GAAP would not be cost effective.

Current Status: Not resolved - See finding 2011-04

2010-04- Segregation of Duties

Fiscal Year Initially Reported: June 30, 2007

Finding: Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

Recommendation: We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes (1) separating transaction authorization from custody of related assets; (2) separating transaction recording from general ledger posting and maintenance; (3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend close supervision and review.

Response: Areas noted will be reviewed and further segregation of duties will be implemented where possible. For areas where segregation to the extent desired is not possible due to the size of the department, supervision and review by management will be increased.

Current Status: Not resolved - See finding 2011-05